

DCAA and FAR

Accounting Compliance and the Government Contractor

Most small firms are introduced to the issue of accounting system compliance in association with their first pre-award survey. Pre-award surveys usually take place prior to award of the firm's first large prime contract with the federal government. If that contract will be subject to the Federal Acquisition Regulations (FAR) - and most are - the pre-award survey will usually be conducted by an auditing arm of the Federal Government. If the prospective contract will require cost-based invoicing or reporting, an important part of the pre-award survey will be the accounting system review. As outlined in the Defense Contract Audit Agency (DCAA) publication entitled "Information for Contractors" dated January 2004, the purpose of this review is "to determine the adequacy and suitability of the contractor's accounting system and practices for accumulating costs under the type of Government contract to be awarded." (Publication DCAAP 7641.90, Chapter 2, Section 2-301). For more information on this document, visit the DCAA web site at <http://www.dcaa.mil/>.

Another important document available there which also includes information on the conduct of a pre-award survey is the Defense Contract Audit Manual (DCAM). Both of these contain important information with respect to the Government's expectations with respect to contractor accounting system functionality and compliance.

Contrary to the belief prevalent in many companies, the issue of accounting system compliance does not really revolve around the software itself. Certainly a key consideration is the functionality and capability of the software employed. Even more important, though, is the network of practices and procedures required for compliance. And most important of all are the internal control mechanisms that monitor and enforce them. When DCAA (or any other Federal audit activity) reviews an accounting system for compliance with Federal regulations, they usually start with the company's policies, practices and procedures. After they have satisfied themselves that the company's policies and procedures are adequate and their day-to-day practices follow their own policies, then they will turn to the software systems in place to support the policies.

Many integrated accounting software packages can be operated in a government contract compliant manner given a well-designed system of practices, procedures and internal controls. If a firm's software lacks a particular required control or feature, this can often be offset by a manual practice or procedure. If the software lacks several such features, it may seem easier to just do the work with a pencil and paper. However, manual systems are prone to lapses in consistency and communication not usually associated with automated systems.

When DCAA examines a contractor's software tools and systems for compliance, the extent of the review will be determined by the nature of the software and their own familiarity with it. If the software is known to DCAA and they are comfortable with the functionality and controls it includes, their review is often very high level. If the software system is not one that is widely used in Government contracting or with which they are unfamiliar, they will often do a detailed

review to determine that the cost recording, tracking, allocation, billing mechanisms and internal controls are sufficient to give the government a level of confidence in the results.

If the software permits, but does not enforce, compliant practices, then a detailed review of the supporting manual systems and practices will be necessary. If it is determined that the system does not include strong internal control capabilities or is deficient in one or more areas of functionality, the result of the review may be adverse. In fact, if these either the software or the manual systems that supplement it are found to be inadequate, then the overall "accounting system" will be determined unacceptable for award of the prospective contract. If the software does not even support compliant practices, then the manual systems will never even be reviewed.

Government contractor solutions from Deltek are among the very few that enjoy a presumption of compliance by government audit agencies even when not yet set up.

In any case, an inadequate accounting system may cause an award to be postponed until the company can acquire and implement a new system. The government audit agency will not develop the new system - correcting the deficient accounting system is the responsibility of the contractor. Once required corrective actions have been taken, the government audit agency, if requested by the contracting officer, will conduct a follow up review of the revised system.

Sometimes, a company may receive awards and be well into performance on multiple contracts before the compliance issue is raised. When this happens, the need for a new system can become more than just urgent. It can be a matter of survival.

Compliance for the Deltek Customer

Deltek offers two different software systems purpose built for Government contracting - GCS Premier for the entry level Government contractor and Costpoint for larger contractors or those with more advanced requirements. Deltek clients have a solid foundation for building a successful contract accounting future. Both GCS Premier and Costpoint are time tested solutions designed specifically for the unique needs of government contractors and together are used by more than 2,500 firms to support cost collection, allocation, reporting and billing on government contracts. Satisfied and compliant Deltek clients range from the giants of the government contracting world like Lockheed Martin, Northrop Grumman and CSC to heavyweights in the government services community like SAIC, BTG and MVM. In fact, more Government contractors will support their annual audit submissions to DCAA this year from a Deltek system **than all other software solutions combined!**

The Bottom Line

Government contract accounting compliance with a manual systems approach can be very expensive and time consuming. Customizing general purpose software to add Government contract specific functionality can be just as time consuming and expensive. Noncompliance can be even more expensive. A system based on integrated cost accounting software with a design that enforces government compliant practices is the most cost-effective solution - for today and tomorrow. From the small or mid-sized federal government contractor to the giants of the industry, Deltek has that solution.


[Home](#) / [Support](#) / Accounting Compliance and the Government Contractor

DCAA and FAR

Accounting Compliance and the Government Contractor

Most small firms are introduced to the issue of accounting system compliance in association with their first pre-award survey. Pre-award surveys usually take place prior to award of the firm's first large prime contract with the federal government. If that contract will be subject to the Federal Acquisition Regulations (FAR) - and most are - the pre-award survey will usually be conducted by an auditing arm of the Federal Government. If the prospective contract will require cost-based invoicing or reporting, an important part of the pre-award survey will be the accounting system review. As outlined in the Defense Contract Audit Agency (DCAA) publication entitled "Information for Contractors" dated January 2004, the purpose of this review is "to determine the adequacy and suitability of the contractor's accounting system and practices for accumulating costs under the type of Government contract to be awarded." (Publication DCAAP 7641.90, Chapter 2, Section 2-301). For more information on this document, visit the DCAA web site at <http://www.dcaa.mil/>.

Another important document available there which also includes information on the conduct of a pre-award survey is the Defense Contract Audit Manual (DCAM). Both of these contain important information with respect to the Government's expectations with respect to contractor accounting system functionality and compliance.

Contrary to the belief prevalent in many companies, the issue of accounting system compliance does not really revolve around the software itself. Certainly a key consideration is the functionality and capability of the software employed. Even more important, though, is the network of practices and procedures required for compliance. And most important of all are the internal control mechanisms that monitor and enforce them. When DCAA (or any other Federal audit activity) reviews an accounting system for compliance with Federal regulations, they usually start with the company's policies, practices and procedures. After they have satisfied themselves that the company's policies and procedures are adequate and their day-to-day practices follow their own policies, then they will turn to the software systems in place to support the policies.

Many integrated accounting software packages can be operated in a government contract compliant manner given a well-designed system of practices, procedures and internal controls. If a firm's software lacks a particular required control or feature, this can often be offset by a manual practice or procedure. If the software lacks several such features, it may seem easier to just do the work with a pencil and paper. However, manual systems are prone to lapses in consistency and communication not usually associated with automated systems.

When DCAA examines a contractor's software tools and systems for compliance, the extent of the review will be determined by the nature of the software and their own familiarity with it. If the software is known to DCAA and they are comfortable with the functionality and controls it includes, their review is often very high level. If the software system is not one that is widely used in Government contracting or with which they are unfamiliar, they will often do a detailed review to determine that the cost recording, tracking, allocation, billing mechanisms and internal controls are sufficient to give the government a level of confidence in the results.

If the software permits, but does not enforce, compliant practices, then a detailed review of the supporting manual systems and practices will be necessary. If it is determined that the system does not include strong internal control capabilities or is deficient in one or more areas of functionality, the result of the review may be adverse. In fact, if these either the software or the manual systems that supplement it are found to be inadequate, then the overall "accounting system" will be determined unacceptable for award of the prospective contract. If the software does not even support compliant practices, then the manual systems will never even be reviewed.

Government contractor solutions from Deltek are among the very few that enjoy a presumption of compliance by government audit agencies even when not yet set up.

In any case, an inadequate accounting system may cause an award to be postponed until the company can acquire and implement a new system. The government audit agency will not develop the new system - correcting the deficient accounting system is the responsibility of the contractor. Once required corrective actions have been taken, the government audit agency, if requested by the contracting officer, will conduct a follow up review of the revised system.

Sometimes, a company may receive awards and be well into performance on multiple contracts before the compliance issue is raised. When this happens, the need for a new system can become more than just urgent. It can be a matter of survival.

Compliance for the Deltek Customer

Deltek offers two different software systems purpose built for Government contracting - GCS Premier for the entry level Government contractor and Costpoint for larger contractors or those with more advanced requirements. Deltek clients have a solid foundation for building a successful contract accounting future. Both GCS Premier and Costpoint are time tested solutions designed specifically for the unique needs of government contractors and together are used by more than 2,500 firms to support cost collection, allocation, reporting and billing on government contracts. Satisfied and compliant Deltek clients range from the giants of the government contracting world like Lockheed Martin, Northrop Grumman and CSC to heavyweights in the government services community like SAIC, BTG and MVM. In fact, more Government contractors will support their annual audit submissions to DCAA this year from a Deltek system **than all other software solutions combined!**

The Bottom Line

Government contract accounting compliance with a manual systems approach can be very expensive and time consuming. Customizing general purpose software to add Government contract specific functionality can be just as time consuming and expensive. Noncompliance can be even more expensive. A system based on integrated cost accounting software with a design that enforces government compliant practices is the most cost-effective solution - for today and tomorrow. From the small or mid-sized federal government contractor to the giants of the industry, Deltek has that solution.



GAO

Accountability * Integrity * Reliability

Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

Decision

Matter of: A-TEK, Inc.

File: B-299557

Date: May 3, 2007

Debbie Rieger for the protester.

Jonathan R. Celniker, Esq., and Michael J. Ettner, Esq., General Services Administration, for the agency.

Paul E. Jordan, Esq., and John M. Melody, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

In procurement that will include cost-reimbursement task orders, agency reasonably rejected protester's proposal for lack of verification of federally audited accounting system as required by the solicitation.

DECISION

A-TEK, Inc. protests the rejection of its proposal as unacceptable, based on a requirement concerning the adequacy of the firm's accounting system, under request for proposals (RFP) No. TQ2006MCB0001, issued by the General Services Administration (GSA) for information technology (IT) services. A-TEK primarily asserts that the rejection is unreasonable because it furnished sufficient information to satisfy the requirement and, in any event, GSA is responsible for A-TEK's failure to meet the requirement.

We deny the protest.

The RFP anticipated the award of some 25 to 30 contracts under a multiple-award, indefinite-delivery/indefinite-quantity (ID/IQ) government-wide acquisition contract (GWAC) for a broad range of IT services, with a not-to-exceed ceiling of \$50 billion. Contractors were to provide all management, supervision, labor, facilities and materials necessary to perform on a task order basis, including cost-reimbursement orders. Awards were to be made on a "best value" basis, with proposals evaluated under two equally important technical factors--past performance and contract plan--which, combined, were significantly more important than price. Prior to the

evaluation under these factors, proposals were to be reviewed for acceptability on a pass/fail basis; those failing this review would not be considered further for award.

Proposals were required to include the Defense Contract Audit Agency's (DCAA), or other federal audit agency's, verification of "an accounting system that has been audited and determined adequate for determining costs applicable to this contract in accordance with [Federal Acquisition Regulation] FAR 16.301-3(a)(1)."¹ RFP § L.12.5, as amended. Any offeror that did not have audit verification but was "certain its accounting system has been determined adequate" could provide contact information from a cognizant auditing representative office. Id. Offerors were warned that their proposals would be rejected if the agency was unable to obtain audit verification. Id.

In response to this requirement, A-TEK's proposal provided information on its use of Deltek software for its accounting and job costs system; contact information for the contracting officer on two current contracts with cost-type task orders; and notice that it had submitted provisional billing rates to DCAA. A-TEK Proposal, Folder J. After GSA reviewed this information and contacted the listed references, it informed A-TEK that it could not verify that the firm's accounting system had been properly audited and deemed adequate. GSA requested additional contact information for verification purposes. In response, A-TEK repeated the information in its proposal, argued that the requirement was arbitrary, and requested that GSA conduct a pre- or post-award audit for offerors lacking audit verification. Thereafter, GSA notified A-TEK that its proposal had been rejected, and this protest followed.

A-TEK asserts that, even though it did not have a verified accounting system, the agency erred in rejecting its proposal because the firm met the RFP's requirements through its use of the Deltek accounting system, submission of provisional billing rates to DCAA for audit, and current contracts with cost-reimbursable-type task orders.²

¹ Under the provisions of FAR § 16.301-3(a)(1), a cost-reimbursement contract may be used only when a contractor's accounting system is adequate for determining costs applicable to the contract.

² A-TEK also asserted that the rejection of its proposal conflicted with RFP § L.12.5, as amended, which stated that offerors did not need a verified estimating system. This assertion is without merit. While the RFP provision advised that a verified estimating system was not required, it also provided that an offeror needed verification that its accounting system had been audited and deemed adequate. It was A-TEK's failure to meet this accounting system requirement, not the lack of a verified estimating system, that resulted in the rejection of its proposal.

In considering a protest of an agency's proposal evaluation, our review is confined to determining whether the evaluation was reasonable and consistent with the terms of the solicitation and applicable statutes and regulations. United Def. LP, B-286925.3 et al., Apr. 9, 2001, 2001 CPD ¶ 75 at 10-11. Offerors have the burden of submitting an adequately written proposal, and an offeror's mere disagreement with the agency's judgment concerning the adequacy of the proposal is not sufficient to establish that the agency acted unreasonably. Carlson Wagonlit Travel, B-287016, Mar. 6, 2001, 2001 CPD ¶ 49 at 3.

The evaluation here was reasonable. The RFP unequivocally required offerors to have DCAA or other federal audit agency verification that the firm's accounting system had been audited and determined adequate for determining costs applicable to the solicited work in accordance with FAR § 16.301-3(a)(1). Contact with DCAA revealed that A-TEK did not have any cost-reimbursement contracts in place; had never been audited by DCAA; and had never been subject to a pre-award survey of its accounting system. Further, A-TEK's submission of provisional rates was not relevant because it lacked any existing cost-type contracts. Agency Report, exh. D, at 3. Further, while the Deltek software is widely used by companies with adequate accounting systems, use of the software alone did not constitute verification that A-TEK's accounting system had been audited and verified as adequate. Id. With regard to A-TEK's other contracts, GSA learned that those contracts contained provisions that specifically prohibited the firm from submitting a proposal for a cost-reimbursement-type task order because it had not had its accounting system audited and deemed adequate for those contracts. Id. at 3-4. While A-TEK also submitted a letter from its accountant, the agency found that it was insufficient to meet the RFP's requirements because it was not from a federal audit agency, it clearly stated that the accountant had not audited A-TEK's accounting system, and it failed to state that A-TEK's system had been deemed adequate for this contract. In short, A-TEK failed to provide any information that satisfied the RFP requirement. Based on A-TEK's failure to provide the required information, the agency reasonably concluded that the firm lacked a properly audited accounting system, and thus reasonably rejected the firm's proposal.

A-TEK has not challenged or refuted GSA's findings. Instead, it simply asserts that, since only the government can request and perform the required audit, meeting the requirement is beyond the firm's control, and it should not be penalized as a result. In this regard, A-TEK now asserts that the RFP requirement was ambiguous because it understood that filing its indirect rates and waiting for the government to take the necessary action was sufficient to meet the requirement. Comments at 1.

A solicitation ambiguity exists where two or more reasonable interpretations of the terms of the solicitation are possible. Ashe Facility Servs., Inc., B-292218.3, B-292218.4, Mar. 31, 2004, 2004 CPD ¶ 80 at 10. To be reasonable, an interpretation must be consistent with the solicitation read as a whole and in a reasonable manner. Malkin Elecs. Intl, Ltd., B-228886, Dec. 14, 1987, 87-2 CPD ¶ 586 at 4.

There is nothing ambiguous in the RFP provision at issue; again, it clearly required offerors to include verification of an audited and adequate accounting system, and warned that failure to do so would result in rejection of their proposals. Contrary to A-TEK's reading of the RFP, nothing in the solicitation supports its interpretation that an offeror awaiting an audit will meet the requirement. In fact, prior to submitting its proposal, A-TEK was well-aware that the agency did not share this interpretation. In this regard, A-TEK had complained about its difficulty in obtaining a DCAA audit and asked GSA to revise its requirement to allow firms to compete that could show evidence of indirect rates on file with DCAA at the time of proposal submission. Protest, exh. A, Question No. 467. The agency responded unequivocally that there was no requirement for audited rates, but reiterated the requirement for DCAA or federal civilian audit agency evidence of an adequate accounting system to be in place by the time of proposal submission in order to be considered for award. Id. A protest based on alleged solicitation improprieties that are apparent prior to the closing time for receipt of proposals must be filed before that time. Bid Protest Regulations, 4 C.F.R. § 21.2(a)(1) (2006). Since the RFP clearly required offerors to include verification of an audited and adequate accounting system, and did not provide for the alternative A-TEK suggests, and since A-TEK was aware of the agency's interpretation prior to the closing time, it was required to protest prior to that time. A-TEK did not protest on this basis prior to the closing time; accordingly, this aspect of the protest is clearly untimely and will not be considered.

The protest is denied.

Gary L. Kepplinger
General Counsel

(c) ADDITIONAL INFORMATION TO BE FURNISHED

(1) Business Systems

State whether all business systems, including but not limited to accounting, property control, purchasing, estimating, and employee compensation, which require Government acceptance or approval (as applicable) are currently accepted/approved without condition.

Provide the date of acceptance/approval for each system and the cognizant contract administration office. Explain any existing conditional acceptances/approvals and the compliance status of any systems(s) for which acceptance or approval is currently withheld.

FAR 16.301-3 requires that a contractor's accounting system be adequate for determining costs applicable to the contract prior to the award of a cost-reimbursement contract. The offeror shall provide evidence of an adequate accounting system as determined by the cognizant Defense Contract Management Agency (DCMA) for accumulating and reporting incurred costs. An adequate accounting system is not an evaluation criterion. It is a basic contract requirement with a pass/fail determination. A contract may only be awarded to the offeror(s) who are determined to have an adequate accounting system by DCMA.

DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 1641-2005xxxxxxxxx

March 11, 2005

PREPARED FOR: Department of the Air Force
Air Force Research Laboratory (AFRL)
ATTN: Ms. Jane Doe
101 West Eglin Blvd, Ste 337, Bldg 13
Eglin Air Force Base, FL 32542-6810

PREPARED BY: DCAA Dayton Branch Office
2970 Presidential Dr., Suite 220
Fairborn, OH 45324-6712
Telephone No. (937) 427-5615
FAX No. (937) 427-5623
E-mail Address dcaa-fao1641@dcaa.mil

SUBJECT: Preaward Survey of Prospective Contractor Accounting System

REFERENCES: Relevant Dates: See Page 5

CONTRACTOR: XYZ Corporation
123 Main Street
Anytown, OH 12345

REPORT RELEASE RESTRICTIONS: See Page 6

	<u>Page</u>
CONTENTS: Subject of Audit	2
Scope of Audit	2
Results of Audit	3
Contractor Organization and Systems	4
DCAA Personnel and Report Authorization	5
Audit Report Distribution and Restrictions	6
Standard Form 1408	6

SUBJECT OF AUDIT

As you requested on January 12, 2005, we examined XYZ Corporation's accounting system to determine whether the design of the system is acceptable for the award of a prospective contract, in accordance with the criteria set forth in FAR 53.209-1(f), Standard form 1408, Preaward Survey of Prospective Contractor Accounting System. By submitting a cost proposal to the Government, XYZ Corporation asserts that its accounting system is acceptable to perform the prospective contract in accordance with the above FAR criteria.

XYZ Corporation is responsible for establishing and maintaining an acceptable accounting system for accumulating costs under prospective Government contracts. Our responsibility is to express an opinion on the acceptability of the design of the accounting system for the award of a prospective contract based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of internal control for accumulating costs under prospective Government contracts;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor; and
- evaluating the overall data and records presentation.

We evaluated the accounting system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR); and
- Defense FAR Supplement (DFARS)

The contractor claims exemption under 48 CFR 9903.201-1(b)(3) from the practices required by the Cost Accounting Standards Board rules and regulations because it considers itself a small business concern.

Our examination was performed from February 3, 2005 through March 7, 2005.

We believe that our examination provides a reasonable basis for our opinion.

FOR OFFICIAL USE ONLY

Our examination did not include tests to determine whether internal control is in operation or operating effectively. Our examination was limited to determining whether XYZ Corporation's design of the accounting system is acceptable for award of a prospective contract. Accordingly, we express no opinion on the system's operating effectiveness. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal control is subject to the risk that the design of the internal control may become unacceptable because of changes in conditions.

RESULTS OF AUDIT

In our opinion, the design of the accounting system is, in all material respects, considered acceptable for award of a prospective contract in accordance with the criteria contained in FAR 53.209-1(f) with the recommendation that an accounting system audit be performed after contract award. The accounting system is in operation. As requested, we have completed a Standard Form 1408, Preaward Survey of Prospective Contractor Accounting System (Attachment, see page 6).

We did not perform a comprehensive examination of the contractor's overall accounting system and its related internal control. Accordingly, we express no opinion on XYZ Corporation's system of internal control taken as a whole.

We discussed the results of our examination with Mr. Samuel Adams, President, in an exit conference held on March 10, 2005.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization.

XYZ Corporation is a closely held organization that performs research and development, prototype modeling, and marketing of miniature robotics to scientific, research, industrial and government groups. XYZ Corporation was organized in January, 1997 within the state of Ohio. For FY 2004, XYZ Corporation had sales of \$86 thousand. For FY 2005, XYZ Corporation projects sales of approximately \$544 thousand. The contractor currently has 9 employees. XYZ Corporation currently has a Phase I SBIR fixed price contract and no commercial contracts.

2. Accounting System.

XYZ Corporation maintains a job cost accounting system which is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers (using a separate 'class' ID) and direct costs are identified and charged to those numbers. XYZ Corporation currently uses Quick Books Pro as its accounting system application. The system is maintained on an accrual basis in accordance with generally accepted accounting principles. XYZ Corporation accounting system is posted on a current basis. Indirect expenses are recorded and billed to projects using predetermined rates. The following schedule describes XYZ Corporation's indirect cost pools and related allocation bases that are used to calculate its indirect rates used for cost allocations. The contractor's accounting period and fiscal year is January 1 through December 31.

Indirect Cost Pools and Allocation Bases

Indirect Cost Pool

Labor Overhead

G&A Expense

Allocation Base

Total direct labor dollars

Total direct labor plus applicable overhead
excluding G&A expenses

DCAA PERSONNEL

Primary contact(s) regarding this audit:	<u>Telephone No.</u>
Yyyyyy Yyyyy, Auditor	(216) 123-4567
Xxxxx XXXXX, Supervisory Auditor	(216) 123-4568
Other contact regarding this audit report:	
Willard J. Tonka, Branch Manager	(937) 427-1111
	<u>FAX No.</u>
Northern Ohio Suboffice	(216) 706-2800
Dayton Branch Office	(937) 427-5623
	<u>E-mail Address</u>
Dayton Branch Office	dcaa-fao1641@dcaa.mil

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

Request for Audit: CO – dated and received January 12, 2005

Due Date Extension: March 4, 2005 report due date extension granted to March 11, 2005

Contractor Access: Contractor granted access to necessary personnel and records on February 3, 2005

AUDIT REPORT AUTHORIZED BY:

/S/ Wally Weasel

for Willard J. Tonka
Branch Manager
DCAA Dayton Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

Department of the Air Force
Air Force Research Laboratory (AFRL)
ATTN: Ms. Jane Doe
Bldg 13
101 West Eglin Blvd, Ste 337
Eglin Air Force Base, FL 32542-6810

E-mail Address
Jane.doe@eglin.af.mil

XYZ Corporation
123 Main Street
Anytown, OH 12345
(Copy furnished thru ACO)

Samadams99@yahoo.com

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

Audit Report No. 1641-2005xxxxxxxxx

Appendix (completed Standard Form 1408) will be included here

FOR OFFICIAL USE ONLY

**PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR
ACCOUNTING SYSTEM**

SERIAL NO. (For surveying activity use)

OMBNo.: **9000-0011**
Expires: 10/31/97

PROSPECTIVE CONTRACTOR

Public reporting burden for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT

☐ YES

☐ NO (Explain in 2. NARRATIVE)

☐ YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD
(Explain in 2. NARRATIVE)

2. NARRATIVE (Clarification of deficiencies, and other pertinent comments,. If additional space is required, continue on plain sheets of paper.)

IF CONTINUATION SHEETS
ATTACHED - MARK HERE ☐

3. SURVEY MADE BY	a. SIGNATURE AND OFFICE (Include typed or printed name)	b. TELEPHONE NO. (include area code)	c. DATE SIGNED
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE (Include typed or printed name)	b. TELEPHONE NO. (include area code)	c. DATE REVIEWED

SECTION II - EVALUATION CHECKLIST

MARK "X" IN THE APPROPRIATE COLUMN <i>(Explain any deficiencies in SECTION I NARRATIVE)</i>	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?			
2. ACCOUNTING SYSTEM PROVIDES FOR:			
a. Proper segregation of direct costs from indirect costs.			
b. Identification and accumulation of direct costs by contract.			
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)			
d. Accumulation of costs under general ledger control.			
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.			
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.			
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.			
h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR31, Contract Cost Principles and Procedures, or other contract provisions.			
i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.			
j. Segregation of preproduction costs from production costs.			
3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:			
a. Required by contract clauses concerning limitation of cost (FAR52.232-20 and 21) or limitation on payments (FAR52.216-16).			
b. Required to support requests for progress payments.			
4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?			
5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)			

[YOUR NAME HERE]
Disclosure of Cost Accounting Structure
And Cost Accounting Practices
January 1, 2010

BACKGROUND: The [Your Name Here] Cost Accounting System is a combination of records, internal controls, written policies and procedures, ledgers and journals that function together with the people, processes, and tools responsible for accumulating, allocating, and reporting cost and financial data. The [Your Name Here] Cost Accounting System is a Job Order Cost system based on actual costs and is therefore capable of producing individual unit or job costs (i.e. task orders, work orders, or contracts) on cost type contracts. Our [Your Accounting Software Here] configuration provides us with effective capability to establish job costing for programs and projects. We utilize this job cost accounting system to capture direct costs for contracts, indirect costs pools for allocation and, for indirect costs to be allocated to government contracts.

[Your Name Here]'s accounting system is based upon the accrual method of accounting and, in accordance with Generally Accepted Accounting Principles (GAAP), accumulation of costs is under general ledger control. All contract costs are accumulated and reported in the company's [Your Accounting Software Here] general ledger and reconciled to individual contract cost records. For the purpose of defining costs as either direct or indirect, [Your Name Here] Cost Accounting System treats individual contracts as the final cost objective.

The [Your Name Here] Cost Accounting System fiscal year is [Your Fiscal Year Here] The [Your Name Here] system of internal accounting controls preclude the direct charging of indirect expenses and indirect charging of direct contract costs. The [Your Name Here] Cost Accounting system used for accumulating, allocating, and reporting contract costs is fully integrated with the [Your Accounting Software Here] financial accounting system. The [Your Name Here] financial accounting system (i.e. our general ledger) is [Your Accounting Software Here]. Cost accounting records are interfaced into the [Your Accounting Software Here] general ledger on a real time basis and a system of internal controls is in place to insure accuracy of the records and an audit trail between cost and financial records. [Your Name Here] cost policies and procedures specify the criteria for determining how costs are charged or allocated to cost objectives.

1. **Direct Costs** Direct costs are those costs that are identified specifically with final cost objectives within [Your Name Here], such as the direct costs associated with a particular contract or other final cost objective. Direct Costs include salaries and wages of personnel directly associated with these final cost objectives, materials directly used in producing products and subcontract costs directly related to the final cost objective. Costs specifically identified with final cost objectives are charged as direct. All costs not specifically identified with final cost objectives are treated as indirect costs.

2. **Indirect Costs** Indirect costs are those costs that are not identified specifically to final cost objectives but are support-type costs necessary for continued operations. [Your Name Here] classifies indirect costs as all costs not directly identifiable with a single final cost objective, but rather with two or more final cost objectives or with intermediate cost objectives.

3. **Final Cost Objective** A final cost objective is a cost objective that has allocated to it both direct and indirect costs and, in the [Your Name Here] accumulation system, it is one of the

[YOUR NAME HERE] PROPRIETARY

final accumulation points. For contracts in the [Your Name Here] a specific contract is considered the final cost objective.

4. **Segregation of Direct Costs from Indirect Costs.** This Cost Accounting Structure document defines [Your Name Here] cost accounting practices for the treatment of costs effective January 1, 20xx. The accounting system has been designed to identify what costs are direct and what costs are considered indirect. The accounting system segregates indirect costs from direct costs. Direct costs are consistent with the definition contained in FAR 31.202 and indirect costs are consistent with FAR 31.203. Internal accounting controls preclude direct charging of indirect expenses and indirect charging of direct expenses. The criteria for segregation of direct costs from indirect costs is consistently applied.

5. **Identification and Accumulation of Direct Costs by Contract.** The Direct Contract Cost categories and their specific detailed cost elements identified as "Direct Labor Dollars" and "[Your Name Here] Contract Direct Charges" (see paragraphs a and b below, respectively) comprise the [Your Name Here] Direct Costs as defined in paragraph 1 above. [Your Name Here]'s job order cost accounting system posts these direct costs to the detailed [Your Name Here] general ledger in [Your Accounting Software Here].

a. **Direct Labor Dollars:** Consists of charges for all labor, without any burdens, of all personnel charging directly in the performance of specific task orders/work orders on federal contracts within the [Your Name Here] Direct labor includes but is not limited to:

Program Management
Account Element
Account Element
Account Element
Account Element

Technology Director
Account Element
Account Element
Account Element
Account Element

The term Direct Labor Dollars does not include holiday, sick, vacation leave, or any type of administrative leave or paid time off. These costs are accounted for as PTO (Paid Time Off) in the [Your Name Here] Cost Accounting Structure. In addition to the actual execution of the technical requirements, direct task order/work order responsibilities include estimating costs, establishing budgets, and developing major milestones schedule, monitoring actual progress against plan, identifying problems, and taking corrective action.

b. **[Your Name Here] Contract Direct Charges:** Includes all non-labor charges and consultant and subcontract labor charges that are charged directly to some specific task order/work order on a given federal contract within [Your Name Here] Contract Direct Charges include but are not limited to:

Account Element
Account Element
Account Element
Account Element

Account Element
Account Element
Account Element
Account Element

6. **Methodology for Allocation of Indirect Costs to Final Cost Objectives:** [Your Name Here]'s method for allocation of indirect costs is logical and consistent and in accordance with Cost Accounting Standards. Indirect Costs are pooled or accumulated in

[YOUR NAME HERE] PROPRIETARY

logical cost groupings so as to permit distributions of the groupings based upon the benefits accruing to the intermediate or final cost objective. The indirect cost pools for [Your Name Here] are (1) Fringe Benefits, (2) Overheads (3) Off-Site Facilities, (4) Material Handling and (5) G&A. Each of these indirect pools is discussed in the following subsections. [Your Name Here] calculates and monitors these indirect costs and their respective bases routine basis. Calculation and monitoring of the [Your Name Here] indirect cost pools is accomplished through the [Your Name Here] "Contract Cost Model" which is updated and monitored on a monthly basis. Annual budgetary forecasts are prepared and used to price final cost objectives. Actual costs are monitored against budgets and variances are trued up.

a. **Fringe Benefits:** Fringe Benefits refers to that category of contract costs, which are commonly incurred as a function of employee wages. [Your Name Here] provides to colleagues a comprehensive benefit plans program. Some of the benefits, e.g. Health Insurance are jointly shared by the company and the employee. The benefit program is geared to be competitive both in the industry in which we operate as well in the locations in which we maintain contracts. The Fringe Benefit Pool consists of paid absence costs (Absences), legally required Taxes, and company-funded Benefits (Taxes, and Benefits) provided to colleagues. All of the costs associated with Fringe Benefits are accumulated at the [Your Name Here] corporate office located in Silver Spring, Maryland..

Paid Time Off refers to that category of Indirect Costs associated with total employee absences. It includes all types of absence cost, namely Personal Time Off (PTO) and Company paid Holidays. For employees performing direct labor within the [Your Name Here] Government Contracts Division, PTO is calculated as a percent of all non-absence labor, both direct and indirect.

Specific cost elements included in the calculation of Fringe Benefits Pool (EPE) include but are not limited to:

Holiday	Vacation, Sick, PTO
Workmen's Compensation	Unemployment Compensation
FICA, FUI, SUI	401K Savings Pension
HMO Health Plans	Company Match
Education Reimbursement	PPO Self Funded Plans
Employee Assistance	Pharmacy, Dental, Basic Life
Pension Administration	Post Retirement
Account Element	Account Element
Account Element	Account Element
Account Element	Account Element

The Fringe Benefits Cost Pool is considered an indirect cost pool in accordance with the definition outlined in section 2.0 above. The base of allocation of the Fringe Benefit Pool is total wages, both direct and indirect.

The calculation, allocation, and monitoring of the Fringe Benefits Indirect Cost Pool is performed by the [Your Name Here] Controller. As of January, 20xx, Ms. XXXX is serving in that position. Her contact information is xxx.xxx.xxxx; xxxxx@xxxx.xxx

[YOUR NAME HERE] PROPRIETARY

b. **Overhead:**[Your Name Here] maintains an Overhead Pools. This Overhead Pools consist and includes such cost elements as salaries and wages of corporate personnel in the areas of Management, Human Resources policy administration, Accounting, Payroll, and IT. Overhead costs are those that support the direct cost activity. Expressly unallowable costs are removed from the Overhead Pool by general ledger account so they are not allocated to government cost objectives. Specific cost elements included in the calculation of the Overhead Pool include but are not limited to:

Account Element
Account Element
Account Element
Account Element
Account Element

Account Element
Account Element
Account Element
Account Element
Account Element

The base of allocation of Overhead is all Direct Labor Dollars. (verify this, does it include fringe?)

The calculation, allocation, and monitoring of the Overhead Cost Pools is performed by the [Your Name Here] Controller. As of January, 20xx, Ms. XXXX is serving in that position. Her contact information is xxx.xxx.xxxx; xxxxx@xxxx.xxx

c. **Material Handling:** [Your Name Here] maintains a Material Handling indirect cost pool which collects all indirect costs required to support subcontract management and administration. This indirect rate is calculated by dividing the total subcontractor administration expense by the total cost of material and subcontractor/teammates. This indirect pool is allocated over the material and subcontract base of all single contract DB segments. The purpose of this charge is to recover the costs of resources for program management associated with subcontractor supervision/tasking direction, subcontract administration, purchasing, accounts payable. Specific items included are defined in

Account Element
Account Element

Account Element
Account Element

d. **G&A:** G&A consists of [Your Name Here] Corporation Home Office Residual costs for overall management and administration. Specific cost elements contained in the G&A Pool include but are not limited to:

Management Salaries
Office Occupancy
Depreciation
Allocated Charges

Allocated Benefits
Accounting & Legal
Outside Services
Taxes

The base of allocation for G&A costs is Total Cost Input.

The calculation, allocation, and monitoring of the G&A Cost Pool is performed by the [Your Name Here] Controller. As of January, 20xx, Ms. XXXX is serving in that position. Her contact information is xxx.xxx.xxxx; xxxxx@xxxx.xxx

[YOUR NAME HERE] PROPRIETARY

e. **Cost Allocation Table:** The table below summarizes the cost accounting structure utilized by [Your Name Here] to accumulate costs to final cost objectives.

[Your Name Here] Cost Accounting Structure for Allocation to Final Cost Objectives January 1, 200x		
Major Cost Element / Pool	Contract Direct Cost	Contract Indirect Cost
Direct Labor	X	
Direct Materials	X	
Fringe Benefits		X
Overhead		X
Material Handling Pool		X
General and Administrative		X

7. **Control of [Your Name Here]:** The job cost accounting system is reconciled to the [Your Accounting Software Here] general ledger and the accounting system is controlled by the [Your Accounting Software Here] general ledger.

8. **Timekeeping System:** All employees in [Your Name Here] complete electronic timecards. Internal control policies and procedures require that direct labor employees record all hours worked and their time is recorded no less frequently than daily. Electronic timecards are turned in on the 15th and end of each calendar month. Timekeeping policies and procedures ensure that :

- The [Your Name Here] system requires direct labor employees to record their time no less than daily.
- [Your Name Here] timecards shall be turned in daily.
- [Your Name Here] employee will have their timecards readily available.
- [Your Name Here] employees will record all hours worked whether they are paid or not.
- [Your Name Here] employees prepare their own timecards, as work is performed.
- Only one card is prepared per employee per period; preprinted with employee name, date, and identification number.
- [Your Name Here] corrections to timecards are electronically initialed by the employee, properly authorized and provide a sufficient and relevant explanation for the correction.
- [Your Name Here] employee and supervisor electronically sign the timecard.
- [Your Name Here] will train all employees charging to government contracts in timekeeping policies and procedures as well as the employee's independent responsibility for accurately recording time charges. [Your Name Here] segregates the responsibility for timekeeping and payroll.

[YOUR NAME HERE] PROPRIETARY

9. **Labor Distribution:** The [Your Name Here] labor distribution system charges direct and indirect labor to the appropriate cost objective. Labor distribution and the respective charges are collected in a labor distribution report that is being tied to the payroll records. [Your Name Here]'s labor distribution system assures the recording of all labor hours and facilitates the reconciliation of labor hours between labor distribution records and payroll system records, thereby maintaining an adequate audit trail. Labor distribution reports are tied to the payroll records and are reconciled no less frequently than monthly.

10. **Postings to the General Ledger:** The [Your Name Here] Cost Accounting System produces reports that show the results of charges to contracts. These reports are produced on a monthly basis. This combination of records, internal controls, written policies and procedures, ledgers and journals function together with the people, processes, and tools responsible for accumulating, allocating, and reporting cost and financial data. The [Your Name Here] Cost Accounting System is a Job Order Cost system based on actual costs and is therefore capable of producing individual unit or job costs (i.e. task orders, work orders, or contracts) on cost type contracts. Our [Your Accounting Software Here] configuration provides us with effective capability to establish job costing for programs and projects. We utilize this job cost accounting system to capture development cost for capital items, government contracts, billouts, etc.

In accordance with Generally Accepted Accounting Principles (GAAP), accumulation of costs is under general ledger control. All contract costs are accumulated and reported in the company's [Your Accounting Software Here] general ledger and reconciled to individual contract cost records. For the purpose of defining costs as either direct or indirect, the [Your Name Here] Cost Accounting System treats individual contracts as the final cost objective.

11. **Unallowable Costs:** It is the intent of [Your Name Here], Inc. to accurately identify and segregate Unallowable Costs in accordance with FAR part 31. [Your Name Here] recognizes that it is very important that all costs that are unallowable be classified as such, as failure to do this can have negative consequences for [Your Name Here]. Similarly, it is important that allowable expenses be classified into one of the allowable categories to ensure that [Your Name Here] will be reimbursed for its recoverable direct and indirect costs on the contract. FAR 31.204 (a) states that cost shall be allowable to the extent they are reasonable, allocable, and determined to be allowable under FAR 21.201, 31.202, 31.203, 31.205. Unallowable items are removed because they may contain costs not chargeable to government contracts. They are:

Cost Element	Description
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element
XXXX	Account Element

[YOUR NAME HERE] PROPRIETARY

Limitation of Costs: The calculation and routine monitoring of total contract expenditures against limitations on price and cost is the responsibility of the [Your Name Here] Controller. As of January, 20xx, Ms. XXXX is serving in that position. Her contact information is xxx.xxx.xxxx; xxxxx@xxxx.xxx

The review of Limitation of Costs is performed no less frequently than monthly. Internal controls ensure compliance with FAR 52.216-16 and FAR 232.20,21, and 22.

12. **Billings:** [Your Name Here] policies and procedures and other internal controls ensure that interim billings of direct costs are prepared directly from the books and records of the [Your Accounting Software Here] general ledger. Additionally, these controls ensure that unallowable costs are excluded from billings. Subcontracts and vendor costs are billed to the government only when actual payment has been made via postings to the [Your Accounting Software Here] general ledger. All billings are reconciled to cost accounts, both for current and cumulative amounts claimed.

13. **Adequacy and reliability of Data:** The [Your Name Here] contract cost model system is capable of producing cost information at a sufficient level of detail for use in pricing follow-on contracts.

[YOUR NAME HERE] PROPRIETARY